

LEBANON THIS WEEK

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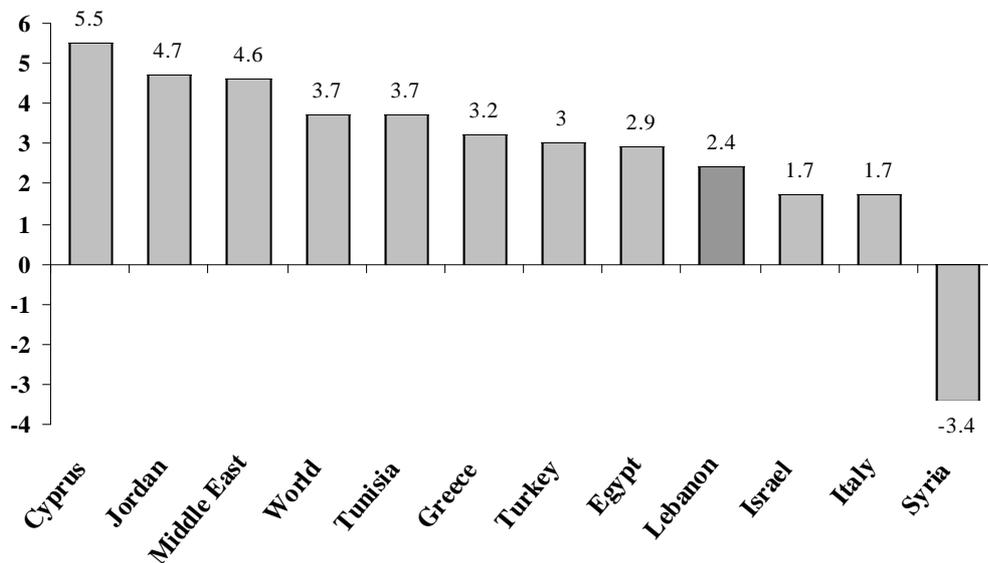
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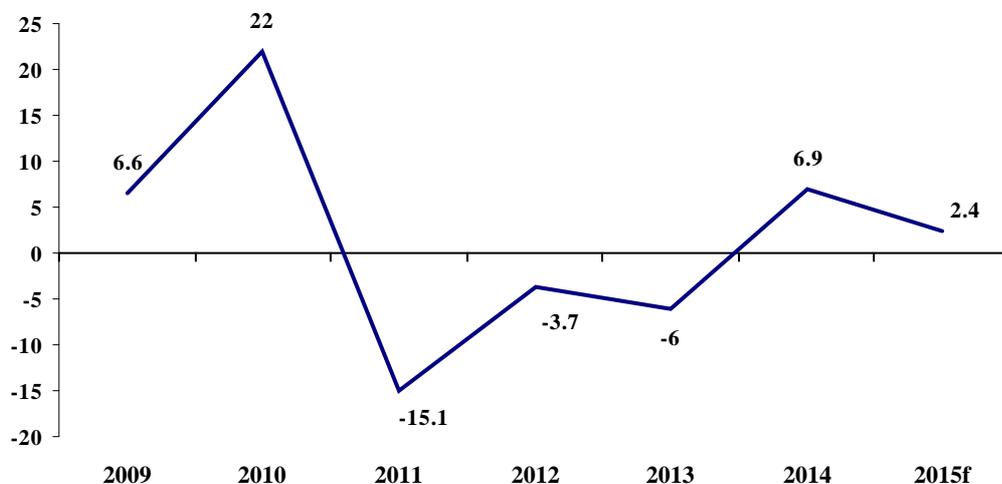
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Charts of the Week

Projected Travel & Tourism's Total Contribution to GDP in 2015 (% real growth)



Travel & Tourism's Total Contribution to GDP in Lebanon (% real growth)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"The banking sector remains resilient despite the challenging environment."

The Institute of International Finance, on the ability of Lebanese banks to deal with adverse operating conditions

Number of the Week

5,729: Number of stories published in *Lebanon This Week* since the publication's launch in January 2007

Lebanon in the News

\$m (unless otherwise mentioned)	2013	Dec 13	Sep 14	Oct 14	Nov 14	Dec 14	% Change*
Exports	3,936	243	282	279	248	268	10.29
Imports	21,228	1,797	1,671	1,724	1,393	1,649	(8.24)
Trade Balance	(17,292)	(1,554)	(1,389)	(1,445)	(1,145)	(1,381)	(11.13)
Balance of Payments	(1,128)	534	131	(566)	(424)	(116)	-
Checks Cleared in LBP	17,047	1,562	1,553	1,587	1,415	1,599	2.37
Checks Cleared in FC	55,321	4,728	4,852	4,730	4,367	4,692	(0.76)
Total Checks Cleared	72,368	6,290	6,405	6,317	5,782	6,291	0.02
Budget Deficit/Surplus	(4,220)	(238.09)	(564.21)	(216.28)	(585.95)	23.00	-
Primary Balance	(239.68)	70.72	(84.64)	258.98	(100.54)	281.94	298.6
Airport Passengers	6,265,470	510,367	640,546	549,726	427,403	573,229	12.32

\$bn (unless otherwise mentioned)	2013	Dec 13	Sep 14	Oct 14	Nov 14	Dec 14	% Change*
BdL FX Reserves	31.71	31.71	32.34	33.09	33.87	32.40	2.19
<i>In months of Imports</i>	<i>17.65</i>	<i>17.65</i>	<i>19.35</i>	<i>19.19</i>	<i>24.32</i>	<i>19.65</i>	<i>11.36</i>
Public Debt	63.46	63.49	65.97	66.21	66.64	66.56	4.84
Net Public Debt	53.18	53.21	55.89	56.23	56.71	57.30	7.69
Bank Assets	164.82	164.82	171.34	171.27	172.21	175.70	6.60
Bank Deposits (Private Sector)	136.21	136.21	142.02	142.04	142.74	144.43	6.03
Bank Loans to Private Sector	47.38	47.38	49.95	50.10	50.51	50.90	7.42
Money Supply M2	45.60	45.60	47.90	47.82	48.07	48.69	6.78
Money Supply M3	111.16	111.16	116.07	116.02	116.47	117.68	5.87
LBP Lending Rate (%)	7.29	7.29	7.08	7.29	6.96	7.49	20bps
LBP Deposit Rate (%)	5.44	5.44	5.51	5.58	5.55	5.56	12bps
USD Lending Rate (%)	6.88	6.88	6.94	6.95	7.01	6.97	9bps
USD Deposit Rate (%)	2.95	2.95	3.04	3.12	3.10	3.07	12bps
Consumer Price Index**	3.89	3.89	1.24	(0.27)	0.48	(1.66)	-

* Year-on-Year

** Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	11.25	1.08	64,927	9.76%	Jan 2016	8.500	103.19	3.86
Solidere "B"	11.14	(0.09)	14,501	6.28%	Mar 2017	9.000	108.50	4.24
Byblos Common	1.71	(2.84)	30,425	5.33%	Nov 2018	5.150	101.25	4.76
Byblos Pref. 08	102.60	1.48	20	1.78%	May 2019	6.000	103.25	5.10
Byblos Pref. 09	102.60	0.00	0	1.78%	Mar 2020	6.375	105.00	5.19
BLOM GDR	10.0	3.63	150,599	6.41%	Apr 2021	8.250	114.00	5.46
BLOM Listed	9.30	0.00	162,652	17.35%	Oct 2022	6.100	102.50	5.64
Audi GDR	6.56	(0.76)	46,043	6.62%	Jun 2025	6.250	101.50	6.05
Audi Listed	6.17	(0.48)	106,460	21.40%	Nov 2026	6.600	104.00	6.11
HOLCIM	14.66	(9.78)	100	2.48%	Feb 2030	6.650	103.25	6.31

Source: Beirut Stock Exchange (BSE); *Week-on-week

Source: Byblos Bank Capital Markets

	May 2-8	Apr 27-30	% Change	Apr 2015	Apr 2014	% Change
Total Shares Traded	657,479	223,016	194.81	1,018,275	1,817,870	(43.99)
Total Value Traded	\$6,535,436	\$2,869,600	127.75	\$10,508,586	\$17,838,999	(41.09)
Market Capitalization	\$11.53bn	\$11.56bn	(0.32)	\$11.56bn	\$11.05bn	4.61

Source: Beirut Stock Exchange (BSE)



Central Bank lifts secrecy on 13 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering and terrorism financing issued its 14th annual report detailing its activities in tracing dirty money in Lebanon in 2014. Established by the Central Bank of Lebanon as an independent legal entity, the SIC's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of Law 318, an anti-money laundering law passed in April 2001 by the Lebanese Parliament.

The report indicated that the SIC received 277 suspected cases in 2014, of which 201 cases or 72.6% of the total, were received from local sources, and 76 cases or 27.4%, were referred from abroad. The SIC referred 72 suspected cases to the judicial authorities, while 73 cases are still pending and the remaining 132 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 13 cases, of which two cases were referred from foreign governments and organizations and 11 cases from domestic sources. In comparison, the SIC investigated a total of 137 out of 301 cases in 2013, 191 out of 284 cases in 2012, 285 out of 335 cases in 2011 and 119 out of 245 cases in 2010. Embezzlement of private funds accounted for 25.3% of reported cases in 2014, followed by counterfeiting & forgery with 12%, terrorism & transfer of funds with 8.7%, embezzlement of public funds with 4.1%, narcotics trade with 2.1% and organized crimes with 0.8%, while the remaining 47% of cases were not categorized.

In cases related to terrorism, local sources provided 10 names (seven cases) while foreign sources provided 492 names (14 cases). Among local sources, banks reported four names (three cases), the police supplied four names (two cases) and ministries provided two names (two cases). Among foreign sources, financial investigation units supplied 461 names (eight cases); followed by foreign ministries with 24 names (two cases), the United Nations Security Council with four names (two cases), foreign law enforcement authorities with two names (one case) and foreign judiciary authorities with one name (one case).

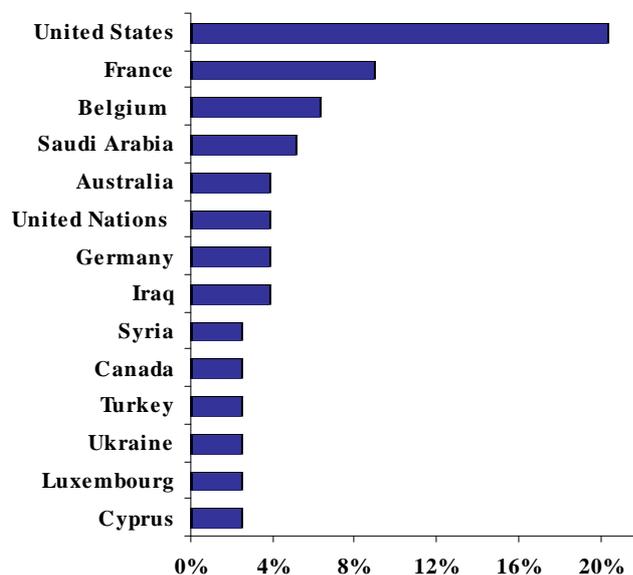
In parallel, the SIC received 183 suspicious transaction reports, 133 requests of assistance and 23 cross border cash reports. Europe was the main source of foreign requests to Lebanese authorities, as it accounted for 39.2% of total requests of assistance, followed by North America (22.8%), the Middle East & the Arabian Gulf (15.2%), Asia (8.9%), the United Nations, Africa and Australia (3.8% each), and Latin America (2.5%).

The SIC examined a number of institutions in order to ensure their full compliance with Law 318. It covered seven brokerage firms, equivalent to 58% of total reporting brokerage firms in Lebanon, 23 financial institutions (43%), 30 banks (42%), 14 insurance companies (27%) and 58 money dealers (17%).

Airport passengers up 10% in first four months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 1,972,587 in the first four months of 2015, constituting a rise of 9.6% from the same period last year. The total number of arriving passengers increased by 10.8% year-on-year to 954,049 in the first four months of 2015, compared to a drop of 1.2% in the same period of 2014 and a rise of 2.4% in the first four months of 2013. Also, the number of departing passengers rose by 8.7% year-on-year to 1,014,558 in the first four months of 2015, relative to a decline of 7.5% in the same period of 2014 and an increase of 12.8% in the first four months of 2013. In parallel, the airport's aircraft activity rose by 4.5% year-on-year to 19,889 take-offs and landings in the first four months of 2015, compared to a decrease of 0.6% in the first four months of last year and a drop of 3.7% in the same period of 2013. The HIA processed 26,214 metric tons of cargo in the first four months of 2015 that consisted of 25,056 tons of freight and 158.5 tons of mail.

Main Sources of Foreign Request of Assistance*



*% of total foreign requests

Source: Special Investigation Commission, Byblos Research

Lebanese banking sector has similar level of vulnerability as sectors in the U.S., Germany and Saudi Arabia

In its semi-annual risk assessment of 112 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 81 banking systems with a "low level of potential vulnerability", coming in the highest category on Fitch's Macropprudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first indicated.

As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress.

Lebanon's MPI score was unchanged from its October 2013 and June 2014 assessments. In October 2013, Fitch upgraded Lebanon's score to '1' from a previous score of '2' due to a sharper-than-expected slowdown in credit growth in 2012. This constituted the second consecutive upgrade for Lebanon's MPI score, as the agency upgraded the country's MPI score from '3' in August 2012 to '2' in January 2013. As such, Lebanon, along with Bahrain, Cameroon, Cape Verde, Egypt, Israel, Kuwait, Morocco, Namibia, Nigeria, Oman, Qatar, Saudi Arabia, the Seychelles, South Africa, Tunisia, the UAE and Uganda had an MPI score of '1' in the Middle East & Africa region. Other countries in this category included Canada, Denmark, Germany, Japan and the United States.

In parallel, the agency indicated that Lebanon's banking sector was among 15 banking systems that had a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weakness that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including where necessary, systemically important unrated banks.

Lebanon came in the 'b' category, along with Egypt, Tunisia and Nigeria in the Middle East & Africa region, as well as with Armenia, Ecuador and Kazakhstan, among others, worldwide. Fitch said that the typical level of banking strength in developed countries is either 'a' or 'bbb', with only three banking sectors at 'aa' and another three sectors at 'b' or lower. It added that the typical level of banking strength in emerging markets is weaker, and is distributed evenly across categories 'bbb', 'bb' and 'b', with only three banking sectors at 'a' and another three sectors at 'ccc'. Lebanon, Belarus, the Dominican Republic, Ecuador, Egypt, Greece, Ireland, Kazakhstan, Nigeria, Slovenia, Tunisia and Vietnam were the only countries with an MPI score of '1' and a BSI Strength of 'b'.

U.S. maintains Lebanon on Watch List of intellectual property rights violations

In its annual 'Special 301' review of the state of intellectual property rights (IPR) protection and enforcement in U.S. trading partners around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List for the ineffective and inadequate protection of intellectual property rights and for severe copyright problems, along with 23 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001 where it remained until 2007. It then upgraded Lebanon to the Watch List in 2008. In parallel, the USTR included 13 countries this year on its Priority Watch List. Countries from the Middle East & Africa on the 2015 Watch List are Egypt and Turkey, while Algeria and Kuwait are on Priority Watch List.

The USTR said that the proliferation of counterfeit pharmaceuticals that are manufactured, sold and distributed in Lebanon remains a concern. It encouraged Lebanese authorities to make progress on pending IPR legislative reforms, including amendments to the patent and copyright laws. It noted that revising the copyright law would pave the way for the ratification of the two World Intellectual Property Organization's Internet Treaties. It called on the Lebanese authorities to ratify and implement several additional IPR treaties, including the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Nice Agreement, and the Madrid Agreement on False or Deceptive Indications of Source on Goods. Also, it encouraged authorities to implement and ratify the Singapore Treaty on the Law of Trademarks, and to join the Patent Cooperation Treaty and the Madrid Protocol. In parallel, it called on authorities to provide the country's Cyber Crime & Intellectual Property Rights Bureau *ex officio* enforcement authority, as well as to extend to all of its enforcement authorities adequate resources to carry out their functions. Also, it urged authorities to commit additional resources to support the Ministry of Economy & Trade's Intellectual Property Protection Office. The USTR considered that intellectual property enforcement through the Lebanese judiciary system remains weak, and urged the imposition of deterrent-level penalties for infringers.

Lebanon ranks 94th globally, 10th in Arab region in travel & tourism competitiveness

The World Economic Forum ranked Lebanon in 94th place among 141 countries on its Travel & Tourism Competitiveness Index (TTCI) for 2015, in 10th place among 14 Arab countries, and in 28th place among 36 upper middle-income countries (UMICs) included in the survey. The TTCI measures the set of factors and policies that enable the sustainable development of the Travel & Tourism (T&T) sector, which in turn, contributes to the development and competitiveness of a country. The Index is the simple average of four sub-indices that are the Enabling Environment Sub-Index, the T&T Policy and Enabling Conditions Sub-Index, the Infrastructure Sub-Index and the Natural & Cultural Resources Sub-Index.

Globally, Lebanon's travel & tourism sector is considered to be more competitive than that of Serbia, Laos and Iran, and less competitive than that of El Salvador, Nicaragua and Tanzania. It also ranked ahead of Serbia and Iran and came behind Kazakhstan and Botswana among UMICs; while it was more competitive than the travel & tourism sectors of only Kuwait, Algeria, Mauritania and Yemen among Arab countries. Lebanon received a score of 3.35 points, lower than the global average score of 3.74 points, the UMICs' average score of 3.71 points and the Arab average score of 3.51 points. The World Economic Forum indicated that Lebanon has great tourism attractiveness, but the country has suffered from safety and security concerns.

Lebanon ranked ahead of Namibia and the Dominican Republic, and came behind Botswana and Jamaica on the Enabling Environment Sub-Index, which captures the general settings that are necessary for operating in a country, such as business environment, safety and security, human resources & labor market. It ranked ahead of Namibia and behind Jamaica among UMICs; while it came ahead of only Egypt, Algeria, Mauritania and Yemen among Arab countries.

Also, Lebanon ranked ahead of Trinidad & Tobago and Madagascar and came behind Nepal and Uganda on the T&T Policy & Enabling Conditions Sub-Index, which assesses specific policies or strategic aspects that have a direct impact on the T&T industry. It ranked ahead of Montenegro and came behind Turkey among UMICs; while it ranked behind Jordan, Tunisia, the UAE, Egypt, Morocco, Qatar and Oman among Arab countries.

Further, Lebanon ranked ahead of Brazil and Romania, and came behind India and Morocco on the Infrastructure Sub-Index, which evaluates the availability and quality of physical infrastructure in a country. It ranked ahead of Brazil and came behind the Dominican Republic among UMICs. Also, Lebanon came behind the UAE, Bahrain, Qatar, Saudi Arabia, Oman and Morocco among Arab countries.

Finally, Lebanon ranked ahead of only Swaziland, Albania, Burundi, Kuwait, Lesotho, Cape Verde, Moldova and Haiti on the Natural & Cultural Resources Sub-Index, which assesses a country's natural and cultural resources, and facilities for business travel. It ranked ahead of Albania among UMICs; while it came ahead of only Kuwait among Arab countries.

Arab Countries' Scores & Rankings

	Overall Score	Arab Rank	Global Rank
UAE	4.43	1	24
Qatar	4.09	2	43
Bahrain	3.85	3	60
Morocco	3.81	4	62
Saudi Arabia	3.80	5	64
Oman	3.79	6	65
Jordan	3.59	7	77
Tunisia	3.54	8	79
Egypt	3.49	9	83
Lebanon	3.35	10	94
Kuwait	3.26	11	103
Algeria	2.93	12	123
Mauritania	2.64	13	137

Source: World Economic Forum, Byblos Research

Components of the Travel & Tourism Competitiveness Index

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Enabling Environment	93	10	28	4.20	4.63	4.67	4.56
T&T Policy & Enabling Conditions	88	8	21	4.00	4.07	3.90	4.03
Infrastructure	69	7	17	3.60	3.61	3.54	3.53
Natural & Cultural Resources	133	13	35	1.60	2.64	1.94	2.73

Source: World Economic Forum, Byblos Research

Electricity sector is obstacle to growth, needs urgent reforms

The World Bank indicated that the financially unsustainable and poorly performing electricity sector in Lebanon have adversely affected macroeconomic stability and reduced the country's growth potential. It estimated the cumulative cost of Treasury transfers to Electricité du Liban (EdL) at 55.4% of 2013 GDP for the period between 1992 and 2013. As such, it noted that 40% of Lebanon's public debt level was due to transfers to Electricité du Liban. It noted that the public debt level would have been 87.8% of GDP at the end of 2013 when excluding EdL losses, instead of the actual level of 143.1% of GDP at the end of the same year. The Bank attributed the large Treasury transfers to EdL to the fact that electricity tariffs are based on the average oil price of \$23 per barrel that prevailed in 1996, which have been far below cost recovery levels. It said that other factors that contribute to low EdL revenues are low billing and collection rates in the distribution sector, as well as the very high production costs such as the elevated operation and maintenance costs of power plants.

Further, the Bank indicated that the electricity sector in Lebanon has been underperforming and in crisis for several decades. It attributed the poor quality of services in the power sector to corruption and mismanagement, as well as to political rivalries and influences. It estimated that the available production capacity covered about 64% of peak electricity demand in 2013, with a daily average supply of 17 hours. It pointed out that in case authorities do not proceed with reforms, then the shortage in electric generation relative to peak demand would increase from 36% in 2013 to 50% in 2018, and the average daily supply would decrease to 12 hours by 2018.

The Bank indicated that 92% of households are linked to private generators as a result of the unreliability of electricity supply. It estimated the income received by the owners of generators at \$1.7bn, or 3.7% of 2014 GDP. It estimated the electricity bill per household at up to \$1,290 per year, two thirds of which are spent on private generators. In addition, it said that 91% of firms in Lebanon own or share a power generator that supplies more than 50% of electricity consumption for firms located outside Beirut. It added that firms suffer from 50 power outages per month for an average duration of 5.2 hours, equivalent to about 8.7 hours per day. As such, it noted that businesses must use private generators that cost them on average about 6% of sales. It indicated that consumers in Lebanon are willing to pay significantly more money than they are currently paying in order to have adequate supply of electricity. But it noted that policymakers have not addressed this socio-economic issue in over 30 years.

The Bank noted that the Cabinet endorsed in June 2010 a Policy Paper for the electricity sector, which includes \$6.5bn in investments that would aim to increase supply and improve its quality, as well as decrease production cost, enhance governance and reduce the fiscal burden on the Treasury. It noted that reforms would increase production efficiency, lower fuel costs and improve revenue generation. But it pointed out that most reforms have not materialized given the sector's highly politicized nature. It cautioned that the fiscal situation in the electricity sector would worsen if authorities do not implement reforms along with investments. The Bank urged authorities to finalize the financial arrangements for the expansion of the Deir Ammar plant. It estimated that the expansion would increase current available capacity by almost 20% through an additional generation of 540 megawatts. Also, it said that it is crucial to ensure a smooth completion of the rehabilitation works in the Zouk and Jieh plants. It encouraged authorities to switch to gas as the main fuel for thermal plants and to exploit the full potential of the hydroelectricity segment. Further, it urged authorities to revise EdL's tariffs in order to improve its financial situation. It also noted that private sector participation in the distribution network should be sustained in order to benefit from efficiency gains and quality of service delivery.

Public-sector salaries and benefits up by 5% in first 10 months of 2014

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$2.4bn in the first 10 months of 2014, constituting an increase of 5.4% from the same period of 2013. They represented the largest component of total primary spending and accounted for 32% of such expenditures in the first 10 months of 2014, compared to a share of 28% in the same period of 2013. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament. The payments exclude retirement and end-of-service indemnities, as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached \$1.5bn and accounted for 62.5% of the total, followed by personnel in public education with \$495.5m (20.3%), civil staff with \$248.8m (10.2%), government contribution to the employees' cooperative with \$149.9m (6.1%) and customs employees with \$18.6m (0.8%). The distribution of salaries and benefits of military personnel shows that the Lebanese Army's salaries totaled \$957.2m in the first 10 months of 2014 and represented 62.8% of the military personnel's salaries and benefits. Salaries of the Internal Security Forces followed with \$443.8m (29.1%), General Security Forces with \$94.2m (6.2%) and State Security Forces with \$29.2m (1.9%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects an increase of \$55.1m in other payments given to non-military bodies such as bonuses, a \$47.8m rise in basic salaries and a \$29.2m expansion in allowances. They were offset in part by a \$3.3m drop in indemnities. The rise in basic salaries reflects a \$57.7m increase in the basic salaries of military personnel, which was partly offset by a \$5.3m decrease in payments to civil service personnel and by a \$4.6m drop in the basic salaries of the public education sector. Overall, basic salaries grew by 2.8% year-on-year to \$1.8bn in the first 10 months of 2014, allowances expanded by 9.3% to \$341.6m and other payments increased by 42.1% to \$185.7m, while indemnities fell by 2.9% to \$111.4m.



Lebanon is fourth largest Arab market in new ads broadcast on local TV stations

Figures issued by MartPoint Marketing Research Consultants show that 632 newly-produced television commercials (TVC) were broadcast on Lebanese television stations in 2014, constituting a 6.2% decrease from 674 TVC in 2013 and compared to 682 TVC in 2012. Newly-produced television commercials in Lebanon grew by a compound annual growth rate (CAGR) of 3.2% from 2010 to 2014, constituting the fourth highest growth rate among 14 Arab markets. In comparison, TVC in Lebanon increased by a CAGR of 12.5% between 2006 and 2011.

Lebanon ranked in fourth place among 11 Arab markets for most new TVC aired in 2014, behind Pan Arab TV satellite stations with 1,454 TVC, the UAE with 699 TVC and Egypt with 642 TVC. Also, TVC aired on Lebanese TV stations accounted for 14.1% of aggregate TVC aired in Arab markets last year, relative to 16.1% in 2013 and 15.1% in 2012.

In parallel, Lebanese TV stations broadcast 124 new commercials in the food category, which accounted for 19.6% of aired ads in 2014; followed by the beverages category with 70 TVC (11.1%); the financial segment with 68 TVC (10.8%), the health & beauty category with 59 TVC (9.3%); and the retail segment with 41 TVC (6.5%).

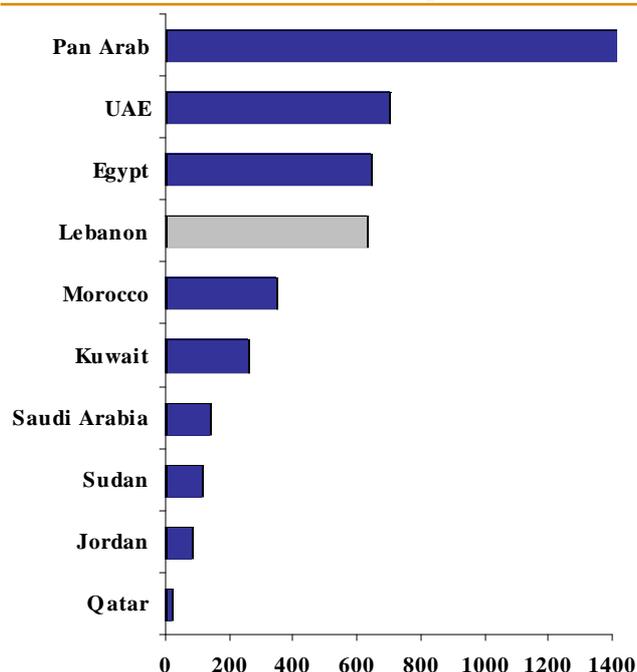
Also, Lebanon broadcast the fourth highest number of Food TVC in the Arab world in 2014, behind Pan Arab TV satellites with 276 TVC, Egypt with 179 TVC and the UAE with 125 TVC. Further, Lebanon aired the third highest number of commercials for beverages, behind Pan Arab TV satellites with 143 TVC and Egypt with 80 TVC; while Lebanese TV stations aired the largest number of financial commercials in the region. In addition, Lebanese TV broadcast the third largest number of health & beauty ads in the Arab world, behind only Pan Arab TV satellites with 200 TVC and the UAE with 165 TVC. Finally, local television stations aired the third highest number of retail commercials in the region, behind only Pan Arab TV satellite stations with 83 TVC and Kuwait with 46 TVC.

Number of new construction permits down 24% in first quarter of 2015, surface area down 20%

The Orders of Engineers & Architects of Beirut and of Tripoli issued 3,319 new construction permits in the first quarter of 2015, constituting a decrease of 23.6% from 4,347 permits in the same quarter of 2014 and relative to a 16.4% rise in the first quarter last year. Mount Lebanon accounted for 42.2% of newly issued construction permits in the first quarter of 2015, followed by South Lebanon with 17.1%, Nabatieh with 14.1%, the North with 10.1%, the Bekaa with 9.2% and Beirut with 6.3%. The remaining 1.7% represent permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of construction permits granted in the first quarter of 2015 reached 2,739,347 square meters (sqm), constituting a drop of 19.8% from the same quarter of 2014 and compared to a rise of 19.6% in the first quarter of 2014. Mount Lebanon accounted for 1,384,273 sqm or 50.5% of total construction permits in the covered quarter. It was followed by the North with 328,176 sqm (12%), the South with 311,291 sqm (11.4%), Nabatieh with 258,724 sqm (9.4%), the Bekaa with 221,014 sqm (8.1%) and Beirut with 113,921 sqm (4.2%). The remaining 121,948 sqm, or 4.5% of total construction permits, reflect the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Newly Produced TVC aired in Top 10 Arab Markets



Source: MartPoint, Byblos Research

Economic growth to lag regional peers, fiscal deficit to remain wide

In its semi-annual economic outlook for the Middle East & Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 2.5% in 2015, unchanged from its forecasts in October 2014 and January 2015, and compared to a growth rate of 2% in 2014 and to an average growth rate of 2.7% during the 2012-13 period. In comparison, it forecast growth at 2.7% for the Middle East & North Africa this year, 3.9% for the region's oil importers and 3.6% for Arab countries in transition excluding Libya. The Fund also projected Lebanon's real GDP growth at 2.5% in 2016 compared to a growth rate of 3.7% for MENA countries and 4.3% for each of the region's oil importers and Arab countries in transition ex-Libya.

Lebanon's projected growth rate in 2015 would make it the fourth slowest growing economy in the Arab world, faster than only the West Bank & Gaza (+0.9%), Iraq (+1.3%) and Kuwait (+1.7%); as it forecast Yemen's real GDP to shrink by 2.2% and continues to exclude Syria from its coverage.

The Fund estimated the country's nominal GDP at \$54.7bn in 2015 relative to \$49.9bn in 2014, which would account for 16.9% of Arab oil importers' aggregate GDP. The Lebanese economy would be the 10th largest economy in the Arab world, bigger than Tunisia (\$45.3bn), Yemen (\$43.1bn), Jordan (\$38.1bn), Libya (\$34.2bn), Bahrain (\$31.3bn), the West Bank & Gaza (\$12.9bn), Mauritania (\$5bn) and Djibouti (\$1.7bn). The IMF projected Lebanon's average inflation rate at 1.1% in 2015 compared to 6.3% in MENA economies, 8.2% for the region's oil importers and 7.4% in Arab countries in transition ex-Libya. Also, it forecast broad money to grow by 8% in each of 2015 and 2016, up from 6% in 2014.

In parallel, the Fund projected the government's fiscal balance to post deficits of 9.1% of GDP in 2015 and 8.6% of GDP in 2016, relative to 7.1% of GDP in 2014. It forecast government revenues, excluding grants, at 19.6% of GDP in 2015 relative to 29% of GDP in the MENA region, 21.8% of GDP for oil importers and 22.7% of GDP in Arab countries in transition. It also estimated public expenditures at 28.8% of GDP in 2015 compared to 37.7% of GDP for MENA countries, 31.3% of GDP for oil importers and 32.9% of GDP for Arab countries in transition. Further, it expected Lebanon's public debt level to reach 131.8% of GDP at the end of 2015 and 134.8% of GDP at end-2016 relative to 134.4% of GDP in 2014. It also forecast total gross external debt at 161.4% of GDP at end-2015 and 165.2% of GDP at end-2016, down from 165.4% of GDP at the end of 2014 and compared to external debt in the MENA countries of 29.8% of GDP at the end of 2015 and 28.9% of GDP at the end of 2016.

The Fund estimated Lebanon's exports of goods & services to rise from \$20.2bn in 2014 to \$20.5bn in 2015 and \$21.8bn in 2016, and for imports to decrease from \$33.2bn in 2014 to \$31.9bn in 2015 and \$33.1bn in 2016. The IMF forecast the country's current account deficit to narrow from \$12.5bn or 24.9% of GDP in 2014 to \$12.1bn or 22.2% of GDP in 2015, compared to deficits of 5.8% of GDP for oil importers and 3.9% of GDP for Arab countries in transition ex-Libya. It also projected Lebanon's current account deficit at \$12.4bn or 21.7% of GDP in 2016. The Fund expected the country's gross official foreign currency reserves to reach \$36.9bn at the end of 2015 and \$40.1bn at end-2016, compared to \$37.3bn at end-2014.

	Lebanon		Oil Importers		Arab Countries in Transition	
	2014	2015P	2014	2015P	2014	2015P
Real GDP Growth (%)	2.0	2.5	2.5	3.9	2.2	3.6
Consumer Price Inflation (%)*	1.9	1.1	10.0	8.2	7.5	7.4
Fiscal Balance (% of GDP)	-7.1	-9.1	-9.8	-8.5	-10.5	-9.1
Public Debt (% of GDP)	134.4	131.8	83.4	84.5	79.5	80.9
Total Gross External Debt (% of GDP)	165.4	161.4	40.9	41.0	23.3	23.3
Current Account (% of GDP)	-24.9	-22.2	-5.5	-5.8	-3.1	-3.9

P: projected

*Yearly average

Source: International Monetary Fund, May 2015

Value of cleared checks down 7%, returned checks up 16% in first quarter of 2015

The value of cleared checks reached \$17bn in the first quarter of 2015, constituting a decrease of 6.6% from the same quarter of 2014, and compared to an increase of 5.1% in the first quarter of 2014 and a decrease of 0.6% in the same quarter of 2013. The value of cleared checks in Lebanese pounds was nearly unchanged annually to the equivalent of \$4.4bn, while the value of cleared checks in US dollars declined by 8.8% to \$12.5bn in the first quarter of 2015. The dollarization rate of cleared checks decreased to 73.9% from 75.7% in the first quarter of 2014. Also, the value of returned checks in domestic and foreign currency grew by 16.2% year-on-year to \$415m in the first quarter of 2015, relative to an increase of 0.8% in the same quarter of 2014 and a decrease of 8.5% in the first quarter of 2013. In parallel, there were 3.04 million cleared checks in the first quarter of 2015, down 4% from the same quarter last year. Also, there were 62,700 returned checks in the covered quarter, up 3.5% from 60,600 in the first quarter of 2014.



Lebanon's external debt posts 21st lowest return in emerging markets, fifth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.47% in the first four months of 2015, constituting the 10th lowest return among 37 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 21st lowest return among the 67 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of 3.24% during the covered period. Further, Lebanon's external debt posted the fifth lowest return among 21 countries in the Middle East & Africa region in the covered period, ahead of only Turkey (+0.6%), Zambia (+1.74%), South Africa (+2.23%) and the Ivory Coast (+2.34%).

In parallel, Lebanon's external debt posted returns of 1.67% in April 2015, constituting the 16th highest return in the CEEMEA region and the 26th highest return in emerging markets during the covered month. Lebanon underperformed the CEEMEA returns of 2.05%, while it outperformed those of emerging markets of 1.09% and the 1.54% return posted by 'B'-rated sovereigns in April 2015.

Further, Lebanon's external debt posted the 11th highest return in the Middle East & Africa region in April 2015. It outperformed Senegal (+1.44%), Kenya (+1.39%), the Ivory Coast (+1.07%), the UAE (+0.89%), Qatar (+0.81%), Bahrain (+0.67%), Israel (+0.12%), South Africa (-0.13%), Turkey (-0.54%) and Morocco (-0.94%). It was outperformed by Gabon (+8.08%), Nigeria (+5.14%), Angola (+3.89%), Iraq (+3.82%), Zambia and Ghana (+2.37% each), Tunisia (+2.17%), Egypt (+1.98%), Namibia (+1.87%) and Rwanda (+1.78%).

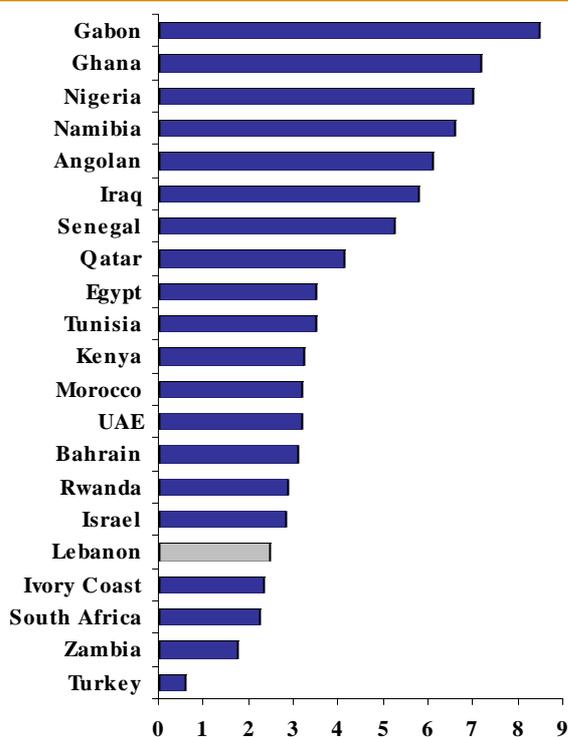
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended April 2015 at 396 basis points, constituting the 14th widest spread in the CEEMEA region and the 23rd widest among emerging markets. It was wider than the emerging markets' overall spread of 293 basis points at the end of April 2015. Lebanon has a weight of 3.41% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the 10th highest among emerging economies. Lebanon accounted for 6.3% of allocations in the CEEMEA region.

Payment cards reach 2.43 million, ATMs total 1,597 at the end of 2014

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,431,588 cards at the end of 2014, constituting a 1.8% increase from end-September 2014 and an 11.3% rise from the end of 2013. Resident cardholders accounted for 97.3% of total cards issued in Lebanon at end-2014. The distribution of payment cards by type shows that debit cards with residents totaled 1,183,557 and accounted for 48.7% of the total, followed by resident prepaid cards at 509,959 (21%), credit cards with residents at 509,036 (20.9%), charge cards with residents at 164,447 (6.8%), non-resident debit cards at 39,200 (1.6%), non-resident credit cards at 10,971 (0.5%), non-resident charge cards at 8,733 (0.4%) and non-resident prepaid cards at 5,685 (0.2%). Further, the aggregate number of points-of-sales accepting payment cards reached 37,554 at the end of 2014, increasing by 2.1% on a quarterly basis and by 5.8% on an annual basis.

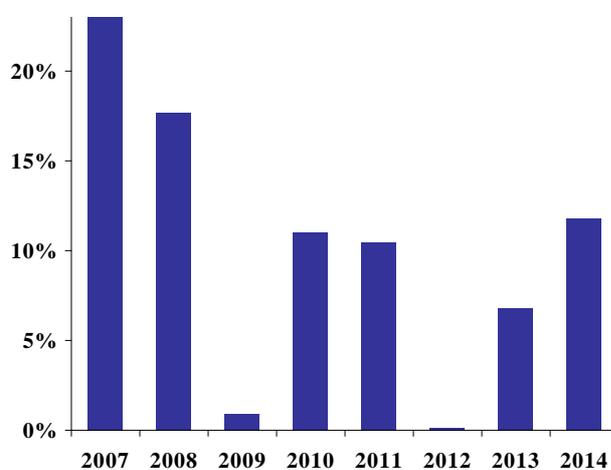
In parallel, the number of ATMs totaled 1,597 machines at the end of 2014, constituting a rise of 1.8% from end-September 2014 and an increase of 5.3% from the end of 2013. The Greater Beirut area had 670 ATMs at the end of 2014, equivalent to 42% of the total, followed by Mount Lebanon with 497 ATMs (31.1%), the North with 157 ATMs (9.8%), the South with 125 ATMs (7.8%), the Bekaa with 120 ATMs (7.5%) and Nabatieh with 28 ATMs (1.8%).

External Debt Performance in the Middle East & Africa in First Four Months of 2015 (%)



Source: Merrill Lynch, Byblos Research

Growth in the Number of Credit Cards Held by Residents



Source: Central Bank of Lebanon, Byblos Research

Trade deficit down 26% to \$3.4bn in first quarter of 2015

Total imports reached \$4.2bn in the first quarter of 2015, constituting a decrease of 22.7% from the same quarter of 2014; while aggregate exports dropped by 3.6% to \$743.8m, leading to a trade deficit of \$3.4bn, down by 26% year-on-year. The narrowing of the deficit was due to a decrease of \$1.2bn in imports year-on-year, given that exports fell by \$28m. The coverage ratio reached 17.8% in the first quarter of 2015 compared to 14.3% in the same quarter last year, while it reached 17.1% in March 2015 relative to 15.4% in March 2014.

The value of imported oil & mineral fuels declined by \$714.6m, or 49.2% year-on-year, to \$736.4m, while the value of non-hydrocarbon imports regressed by 13% to \$3.4bn. Among non-hydrocarbons, imports of base metals fell by \$190.6m, or 40.9%, to \$275m in the first quarter of 2015, while those of machinery & mechanical appliances fell by \$104.9m, or 18.4%, to \$465.1m in the covered quarter. Oil & mineral fuels accounted for 17.7% of total imports in the covered quarter compared to a share of 26.9% in the first quarter of 2014.

In volume terms, imports reached 3.5 million tons in the first quarter of 2015, constituting a decrease of 15.3% from 4.1 million tons in the same quarter last year; while exports rose by 7.9% to 445,892 tons. Imports of oil & mineral fuels dropped by 17.6% year-on-year to 1.6 million tons, while non-hydrocarbon imports declined by 13.2% annually to 1.9 million tons. Imported oil & mineral fuels accounted for 46.7% of total imports in the covered quarter relative to a 48% share in the first quarter of 2014.

China was the main source of imports with \$512.7m or 12.3% of the total in the first quarter of 2015, followed by Italy with \$278.9m (6.7%), Germany with \$267m (6.4%), Russia with \$262.6m (6.3%), France with \$255.4m (6.1%), the United States with \$215m (5.2%) and Greece with \$185.7m (4.5%). Imports from Russia surged by 35.6% year-on-year in the first quarter of 2015; while imports from the United States dropped by 51%, those from Italy fell by 37.3%, imports from China regressed by 23.8%, those from Germany declined by 15.9%, imports from Greece decreased by 14.7% and those from France fell by 6.5%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$98.1m or 13.2% of total exports, followed by the UAE with \$77.9m (10.5%), Iraq with \$62.2m (8.4%), Syria with \$53.5m (7.2%), South Africa with \$51.7m (6.9%), Jordan with \$24.5m (3.3%) and Egypt with \$23.6m (3.2%). Exports to Egypt surged by 42.8% year-on-year in the first quarter of 2015, those to Saudi Arabia increased by 21.2%, exports to the UAE rose by 7.3% and those to Iraq grew by 0.7%; while exports to South Africa dropped by 38.9% year-on-year, those to Jordan declined by 18.2% and those to Syria regressed by 8.7%.

Lebanon's main export product was jewelry at \$120.3m, or 16.2% of the total, followed by prepared foodstuff with \$118.9m (16%), chemical products with \$104.8m (14.1%), machinery & mechanical appliances with \$100.8m (13.5%), base metals with \$74.9m (10.1%), and paper & paperboard products with \$40.8m (5.5%). Re-exports totaled \$94.1m in the first quarter of 2015 compared to \$88.1m in the same quarter last year.

Industrial activity regresses in fourth quarter of 2014

The Central Bank's quarterly business survey shows that industrial production regressed in the fourth quarter of 2014, as the balance of opinions stood at -5 compared to +5 in the third quarter of 2014 and -4 in the same quarter of 2013. The balance of opinions was the lowest in the Bekaa region at -20, followed by Beirut & Mount Lebanon (-14), the North (+7) and the South (+53). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -9 in the fourth quarter of 2014 compared to +1 in the preceding quarter and to -5 in the same quarter of 2013. The balance of opinions about overall demand for industrial goods was the lowest in Beirut & Mount Lebanon at -23, followed by the Bekaa (-20), the North (+4) and the South (+50).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at +1 in the fourth quarter of 2014 compared to zero in the preceding quarter and -4 in the same quarter of 2013. The balance of opinions about the volume of investments was the lowest in the North at -8, followed by Beirut & Mount Lebanon (-1), the Bekaa (+3) and the South (+21). Also, the balance of opinions for foreign demand of industrial goods stood at -14 during the fourth quarter of 2014 compared to -8 in the preceding quarter and -16 in the fourth quarter of 2013. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of opinions				
Aggregate results	Q4-11	Q4-12	Q4-13	Q4-14
Production	-11	-8	-4	-5
Total demand	-14	-8	-5	-9
Foreign demand	-12	-22	-16	-14
Volume of investments	+2	-8	-4	+1
Inventories of finished goods	-11	-14	-14	-7
Inventories of raw material	-3	-4	-7	-7
Registered orders	-15	-19	-14	-15

Source: Central Bank Business Survey for Fourth Quarter 2014

Commercial banks' assets reach \$177bn at end of March 2015

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$177bn at the end of March 2015, constituting an increase of 0.7% from the end of 2014 and a rise of 6.3% from end-March 2014. Private sector deposits totaled \$145.5bn, growing by 0.7% from the end of 2014 and rising by 6.5% from a year earlier. Deposits in Lebanese pounds reached \$50.5bn and rose by 2.1% from end-2014 and by 7.1% from end-March 2014; while deposits in foreign currency totaled \$94.9bn, unchanged from the end of 2014 and constituting an increase of 6.2% from a year earlier. Non-resident foreign currency deposits totaled \$26.8bn at the end of March 2015 and increased by 1.4% from end-2014 and by 11.8% year-on-year. Aggregate non-resident deposits reached \$30.8bn at the end of March and rose by 1.7% from end-2014 and by 12.5% from a year earlier. Total private sector deposits decreased by \$274m in January and increased by \$577.8m in February and by \$731.7m in March 2015; while they dropped by \$1.3bn in January and rose by \$848.4m in February and by \$843.8m in March 2014. In parallel, deposits of non-resident banks reached \$5.7bn at the end of March 2015, constituting a decrease of 2.2% from end-2014 and an increase of 11.4% from a year earlier. The dollarization rate of deposits reached 65.3% at the end of March 2015, down from 65.7% at end-2014 and 65.4% at end-March 2014. Further, the average deposit rate in Lebanese pounds was 5.57% in March 2015 relative to 5.48% in the same month of 2014, while the same rate in US dollars was 3.12% compared to 2.96% in March 2014.

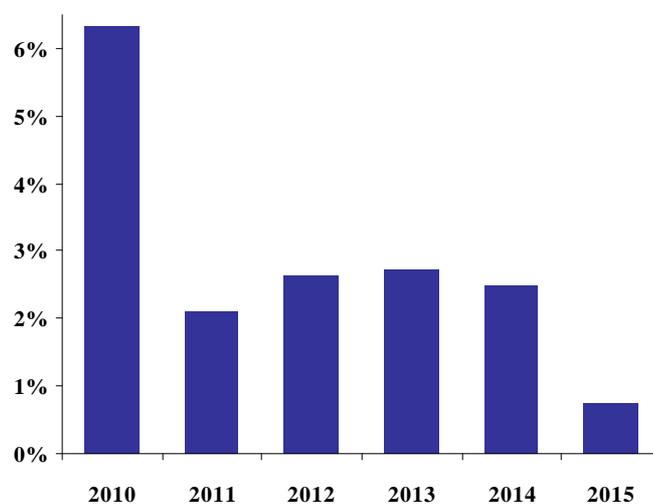
Loans to the private sector reached \$51.1bn at the end of March 2015, constituting increases of 0.5% from the end of 2014 and of 6.2% from a year earlier. In nominal terms, credit to the private sector regressed by \$338.3m in January and increased by \$37.1m in February and by \$545.9m in March 2015, compared to a decrease of \$341m in January and to increases of \$345.6m in February and \$750.2m in March 2014. Lending to the resident private sector totaled \$45.7bn, up by 0.7% from the end of 2014 and by 8.2% from end-March 2014; while credit to the non-resident private sector reached \$5.4bn and regressed by 1.6% from end-2014 and by 2.8% from end-March 2014. The dollarization rate in private sector lending regressed to 75.2% at the end of March 2015 from 76.2% a year earlier. The average lending rate in Lebanese pounds was 6.94% in March 2015 compared to 7.26% in the same month of 2014, while the same average in US dollars was 7.16%, up from 6.87% in March 2014. In addition, claims on non-resident banks reached \$10.9bn at the end of March 2015, representing a drop of 10.3% from end-2014 and a decline of 11.5% from a year earlier. In parallel, claims on the public sector stood at \$38.9bn at the end of March 2015, up by 4.3% from the end of 2014 and by 2.4% year-on-year. The ratio of private sector loans-to-deposits in foreign currency stood at 40.5%, well below the Central Bank's limit of 70% and compared to 41% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.1% at end-March 2015, up from 24.3% at the end of March 2014. The ratio of total private sector loans-to-deposits was 35.2% relative to 35.3% a year earlier. The banks' aggregate capital base stood at \$15.8bn, up by 0.3% from end-2014 and by 8.7% from \$14.5bn at end-March 2014.

Balance sheet of financial institutions down 1% in first quarter of 2015

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,505bn, or \$1.66bn, at the end of March 2015, constituting a decrease of 0.8% from end-2014 and a rise of 2.2% from end-March 2014. Liabilities to the private sector totaled \$227.1m and decreased by 12.5% from end-2014 and by 14.5% from a year earlier. Further, commitments to the financial sector reached \$876.1m at the end of March 2015, representing an increase of 3.7% from a year earlier.

On the assets side, financial institutions' operations with commercial banks totaled \$604.5m at the end of March 2015 and increased by 4.4% from end-2014 and by 10.8% from end-March 2014. Claims on the private sector reached \$703m, down by 5.3% from end-2014 and by 4.7% from a year earlier. Also, investments in government securities totaled \$370m as at end-March 2015, nearly unchanged from end-2014, and growing by 4.5% from end-March 2014. Further, the aggregate capital account of financial institutions reached \$450.6m at the end of March 2015, reflecting an increase of 3.9% from end-2014 and a rise of 8.8% from the same month of 2014. There were 55 financial institutions in Lebanon with a total of 73 branches as of December 2014.

Resident Private Sector Lending Growth* (% Change)



* in the first quarter of each year

Source: Association of Banks in Lebanon, Byblos Research

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	42.9	45.4	47.5	
Public Debt in Foreign Currency / GDP	56.8	57.5	53.9	(362)
Public Debt in Local Currency / GDP	77.6	82.3	86.2	397
Gross Public Debt / GDP	134.5	139.8	140.1	35
Total Gross External Debt / GDP**	166.8	168.7	173.1	440
Trade Balance / GDP	(39.2)	(37.8)	(36.2)	163
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.1	20.4	22.6	217
Fiscal Expenditures / GDP	30.7	29.3	29.0	-35
Fiscal Balance / GDP	(8.6)	(9.0)	(6.4)	262
Primary Balance / GDP	(0.3)	(0.5)	2.7	321
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	242.5	244.8	247.7	290
Commercial Banks Assets / GDP	354.0	363.0	369.9	685
Private Sector Deposits / GDP	291.4	300.0	304.1	404
Private Sector Loans / GDP	101.3	104.4	107.2	279
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

* Change in basis points 13/14

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, International Monetary Fund, Institute of International Finance, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	May 2013	Apr 2014	May 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	33.5	38.0	38.0	▼	Low
Economic Risk Rating	28.5	27.0	27.0	▲	High
Composite Risk Rating	57.5	58.5	58.5	▼	High

Regional Average	May 2013	Apr 2014	May 2014	Change*	Risk Level
Political Risk Rating	58.5	58.3	58.3	▲	High
Financial Risk Rating	41.2	40.7	40.6	▲	Very Low
Economic Risk Rating	36.4	36.1	36.0	▲	Low
Composite Risk Rating	68.0	67.5	67.5	▲	Moderate

*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies

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